

**Abstract.** *Doing business in an emerging economy is a challenge for any company. Combining the global know-how and the local resources will increase chances for success in any kind of economic activity. The purpose of this research is to analyze the role of transformational leadership in mergers and acquisitions, in emergent economies. More specifically, we shall present the case of the case of an important merger in beer industry on the Romanian market. Merger and acquisitions represent strategies for developing new markets, or for increasing market dominance in old markets. From companies performing mergers and acquisitions viewpoint, these events represent discontinuities in their business life that generates a lot of problems. Since each merger or acquisition is an unique transformational process, the role of transformational leadership is essential. Our research is based on both qualitative and quantitative analyses in order to identify the most important aspects characteristic for emergent economies.*

**Keywords:** change, emerging markets, mergers and acquisitions, transformational leadership.

## **THE ROLE OF TRANSFORMATIONAL LEADERSHIP IN MERGERS AND ACQUISITIONS IN EMERGENT ECONOMIES**

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## 1. Introduction

Emergent economies can be characterized by many and rapid changes in the business environment. These changes are generated by the need of developing up to a maturity level, and by the need of compatibility with the well developed economies. All the former socialist countries, Romania being among them, enter after the change of the political regime into a transition economy that after about twenty years of development may be considered emergent economies. There were complex changes along the political, economical, social, educational, cultural, scientific and technological dimensions. In all of these changes at the organizational and economy levels the role of transformational leadership was essential (Anagnoste & Agoston, 2010). As its name implies, *transformational leadership* is a process of complex changes in organizations that finally transforms people, and through them the whole business environment. *“Developing new business directions is not a simple task, but it can be successfully performed as the most part of employees embarked on a common vision and share the same mind set in terms of the relationships between personal and organizational priorities”* (Nastase, 2009, p. 82).

According to the research done in the field, leadership can be considered of being either *transactional* or *transformational* (Bass & Riggio, 2006; Daft, 2008; Kouzes & Posner, 2007; Northouse, 2007). Leadership is a process of generating change, not maintaining the status quo. This change is not imposed by the leader, but it is a sharing process of the same purpose and values. *“Change is toward an outcome that leader and followers both want a desired future or shared purpose that motivates them toward this more preferable outcome. An important aspect of leadership is influencing others to come together around a common vision. Thus, leadership involves the influence of people to bring about change toward a desirable future”* (Daft, 2008, p. 5). When change is done in incremental steps we deal with transactional leadership. When change is disruptive we deal with transformational leadership. The purpose of this paper is to analyze the role of the transformational leadership in mergers and acquisitions in emergent economies. As a case study, we focused on the beer market in Romania. This market is evaluated at 1 billion EURO and the main four players (SAB Miller, Heineken, INBEV AG, Carlsberg) have 90% of the market share. We wanted to find out if the main transaction in the Romanian beer market was an acquisition planned or forced by the competitors and see the importance of the transformational leadership in the people involved in this transaction. When it comes to leadership it is very important to stress out that leadership has a nonlinear nature and is an integrator much more powerful than technologies or its associated processes being a generic and flexible integrator of intellectual capital (Bratianu, 2011; Bratianu & Orzea, 2010; Dima, 2010).

## 2. Mergers and acquisitions

Companies never stop searching for sources of profitable growth, whether organic (hiring additional salespeople, developing new products) or non-organic development through mergers and acquisitions (M&A). A *merger* is a mutually agreed decision for joint ownership between two companies. An *acquisition* is when a company takes ownership of

another company. M&A can provide a stimulus to growth and enable market dominance in a slow growth market by enlarging geographical, product or business field. Also, M&A provide opportunities for enhancing the bottom line through better synergies and reduced overheads. However, as Johnson et al. (2008, p. 359) remarked “*Acquisitions are not an easy or guaranteed route to improving financial performance. As many as 70% of acquisitions end up with lower returns to shareholders of both organizations*”.

Acquirers usually pursue a merger to cut costs and create growth opportunities. The aim is to establish or broaden their presence in high-growth markets, so they are constantly on the lookout for acquisitions with growth prospects. Another reason could be to gain access to production and new technology. This strategy pushes expansion plans by broadening the customer base and increasing market share.

Throughout the process of M&A negotiation there is a set of instruments and activities that are performed: while the company willing to expand is developing a short list of potential candidates, on the other side the targeted company is performing a market screening to have an idea about what could be the market potential. The next step is defined as an understanding point from both sides of the risks involved, potential attractiveness. This is normally done via due diligence reports and management presentations. In the end the process as such is managed through offer evaluation, structuring the deal, negotiating the agreement and in the end signing and closing the process. Due diligence is a key activity in mergers and acquisitions because it is the point at which both the potential for value creation and the purchase price are determined. To fully assess the value creation potential acquires perform different types of due diligence reports (Niewiem & Rothenbucher, 2008).

A successful merger is certainly not all about speed or applying sophisticated tools for managing the process. Instead, today's successful integration managers use a different, more nuanced approach by establishing clear structures – skillfully combining leadership with execution and placing greater emphasis on achieving growth. Leadership has a pivotal role in any merger integration, where a certain degree of chaos and confusion is unavoidable. Two companies shed their separate identities to form a new, combined organization – and without the familiar structures to hold things together, there is a tendency to pull in different and sometimes, conflicting directions. Such situation requires a strong integrator like transformational leadership to ensure that the merger is on the right track and all necessary tasks are being executed.

Acquirers in emergent economies usually pursue a merger to cut costs and create growth opportunities. The aim is to establish or broaden their presence in high-growth markets, so they are constantly on the lookout for acquisitions with growth prospects. These companies also focus on low-cost environments for manufacturing and sourcing. Well aware of the growing threat from emerging rivals, they want to strengthen their competitive positions.

In contrast acquirers from developing countries focus on gaining access to production and new technology. These companies are also entering established markets to maximize the advantages of their low-cost structure against traditional competitors. This strategy pushes expansion plans by broadening the customer base and increasing market

share in developed countries. It relies on a new, more educated class of executives driven to expand the scope of their business activities.

### **3. Case study: Bere-Mures acquisition by Heineken Romania**

The beer market followed a strong consolidation process in the recent years while the big producers were fighting for a top position through acquiring as much local producers as possible. There is a natural tendency of industries towards consolidation and the domestic beer market was no exception. This might be reason why the domestic beer market is one of the regional market with the most local competitiveness dominated mainly by world producers. Thus 90% of the beer market is controlled by 5 players (Ursus Breweries, Heineken, Bergenbier, Tuborg and Romaqua) and small producers account for only 10% of the market, while other regional markets like Czech Republic, Poland and Hungary are dominated by the same producers, but with less market share and an important number of small beer producers.

In this context, the two main players are forced to play the game of market leaders, as an alternative to organic growth, and any strategic movement like merger and acquisition is key determinant in their market positioning. Thus, we may conclude that the particular case of Bere-Mures acquisition was not necessarily a desired acquisition but rather a reactive movement to the market tendencies. Going further analyzing the typical merger and acquisition process we will be able to conclude whether or not the acquisition process of Bere-Mures by Heineken was a reactive or proactive process, probably due to the fact that Bere-Mures was the last opportunity for a significant market share gain by acquisition. Bere-Mures shareholders sold the company simply because it was the best moment of exiting the market, at the beginning of 2008 the beer market being still in one of the best evolution moments, afterwards the beer market decrease by 13% in 2009 compared to 2008 (Romanian Beer Association, 2010). On the other side, because of the market consolidation characteristics, the main players Ursus and Heineken, fighting for the first position were forced to get involved in the process and make a decision. At the moment of the acquisition the market share difference between Heineken and its main competitor SAB Miller was of only 1% thus the fight of getting Bere-Mures that accounted for 6% of the market was very tight with both players negotiating in parallel with Bere-Mures. Improve competitive position is one of the main drivers of M&A transactions and this was also one of the main reasons for Bere-Mures acquisition

We designed an integrative research model based on both qualitative and quantitative research actions. Interviewing and recording the key people in the transaction did the qualitative research component, and the quantitative research was conducted during October and November 2010 through on-line questionnaires.

For the qualitative research we had interviews with the most important people from Heineken Romania at that time, Flavius Adrian Cimpian (Legal Manager) and Vasile Ciurba (Heineken Administer) and it lasted 30 minutes each meeting. We wanted to find out every aspect of the negotiation from the point it started to the point the transaction was complete and also we wanted to find out the openness of the Romanian managers

regarding transformational leadership. For the quantitative research component we obtained data from 135 out of 148 managers, which means 91% response ratio.

#### **4. Research results and discussion**

We wanted to see “how” and “why” was the acquisition a success for Heineken Romania, and not only “what”, “where”, “when”. During the research we had interview session with the negotiation team also, made by Mr. Vasile Ciurba, member of Board of Administration member, and Mr. Flavius Cimpian, Legal Manager. In the interview with Mr. Ciurba we found out the very tough position he was during the negotiations and after this, restructuring the business. “The process started right away”, as he mentioned, “and it was necessarily to align all the processes of Bere-Mures with those of Heineken Romania”. We identified that during this process they used the system called Total Product Management, which is very similar with Six Sigma concept, where Six Sigma can enact as an enabler for cultural change. Another aspect that we considered important was “the leadership style of the Romanian management of Bere-Mures, which was a direct leadership style, the decisions were taken much faster compared to Heineken Romania”, as Mr. Ciurba stated.

A questionnaire survey was made by us following a brainstorming and contains 28 questions, divided on seven areas: values, vision, optimism, innovation and change, trust, motivation and emotional intelligence. The questionnaire was conducted on 148 managers or seniors who have at least two people under guidance. We used Lotus Notes, which is the internal electronic communication system within Heineken Romania, to send the questionnaire. The questionnaires covered managers and seniors from all the regions of the country in which were breweries or local offices.

The e-mail was accompanied by a descriptive letter, which contained the subject of the research, the importance of everyone in order to complete the research, the confidentiality of their answers and the availability of the article when will be made public. A total of 135 questionnaires were completed and returned and we obtained a 91% response rate after we have made a phone call to everybody as a reminder. We observed that the higher in hierarchy, the harder was for us to obtain a completed questionnaire, though this can be explained by the lack of free time, pressure and other problems that they face in daily. The questionnaire requested respondents to indicate the ways they deal in their daily activities regarding our seven items we defined for transformational leadership. The research can be an answer to the suggestion of Kabacoff (2002) regarding the personal characteristics, such age, education, etc that have a significant impact on leadership. For example, the youngest manager within Heineken Romania is under 30 years old and this can be an answer to a lot of questions, especially when you want to improve the management of the human resources.

Therefore, the present work attempts a comprehensive research of transformational leadership of managers from two perspectives, personal and organizational dimensions, to describe new both the individual and also the impact of these variables on leadership practice. The rating scale adopted was Likert-type scale from 1 (Strongly disagree), 2 (Partially disagree), 3 (Uncertain), 4 (Partially agree), 5 (Strongly

agree). Some authors, like Hogan and Hogan (2001) are not in favor of self-report data used in leadership research, because they consider that leadership is a complex socially influenced process and thus, it takes more than just individual evaluation. But most of researchers, as shown by Bass (2002), have demonstrated that self-report personality scales show predictable, significant and substantial correlations with criteria of management job success.

We have processed the valid questionnaires using the dedicated program SPSS. One of the main objectives was to get a factor analysis in order to identify the most important factors in the transformational leadership role played in the acquisition process we study. Once applied the factor analysis with main component extraction through varimax orthogonal rotation were obtained 7 factors that represent 61.3 percent of the information contained in the original data. Table 1 presents the percentage of each factor accounted in total variance. After a first analysis of the factors extracted in the varimax rotation we have decided to rerun the analysis and impose the condition to have a fixed number of five factors extracted because the difference between the fifth and sixth is considerable. The initial rotated factor structure showed a number of cross-loaded items. Deletion of cross-loaded items serves to clarify the factors and makes their interpretation easier.

The first factor extracted from the second rotation explained 26.58 percent of the total variance. Among the items included in this factor are: You emphasize in front of your team the importance of a common mission aligned with organization's vision, you communicate your organization's vision to your team, you make decisions based on your organization's values, you identify improvement opportunities for the product/services you offer or the opportunity to introduce new/innovative ones, You integrate current market evolution in your own field of activity in the proposals you make, You explain the path to reach your organization long term objectives, You are constantly seeking new ways to increase the involvement of those under your supervision. Thus, analyzing the content of the sentences included in the first factor extracted we can conclude that an important factor in transformational leadership is the *vision the leader has and his/her identification as a change agent within the organization*.

*Table 1***Total variance explained**

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	7.444	26.584	26.584
2	2.062	7.366	33.950
3	1.797	6.417	40.367
4	1.705	6.091	46.458
5	1.511	5.397	51.855
6	1.343	4.797	56.652
7	1.302	4.649	61.301

The second factor that can be identified from the analysis includes items such as: You identify misunderstandings and you make sure they are diminished, You see delegation as a sign of trust, The members of your team have the courage to express a point of view which is different than yours, You encourage your team/colleagues to come up with new solutions or ways of working. The statements included in the second factor analyzed reveal the importance of *the relationship that the leader has with the group*.

Factor 3 includes statements that clearly demonstrate the importance of *trust* among the team players and the leader of the group (Through your actions you inspire the others to outperform themselves, You use symbols, stories, rituals to create the trust and identity of a team, You inspire power and pride in your team, You demonstrate to the members of your team that they need to take into account the feelings and needs of others). Factor 3 is in close connection with the fourth factor identified from the analysis. The latter includes statements that demonstrate the need of the leaders to *take decision which are in accordance with the moral and ethical principles, involving employees in the decision making process* (e.g. You always take in consideration the moral and ethical consequences of your decisions, You encourage your team to participate in decision making and you try to implement their ideas and suggestions). Whereas, the fifth factor identified reveals the importance of optimism, as a trait of the perfect leader (e.g. You think of yourself as a lucky person). The sixth factor is *motivation* (e.g. You act upon the opportunities you have identified, The members of your team have the courage to express a point of view which is different from yours), which it seems that is not so important compared to the factors we have described above. We think that is a cultural aspect regarding this factor. The last factor is represented by emotional intelligence (e.g. Emotional intelligence is more important than intelligence quotient) obtained a response that it was so impressive and this we might correlate of 45 years spent in communism by the country.

The reliability of a measuring represents the consistency of the factors determined and the internal consistency of the factors should be tested to ensure the reliability of the factors. Cronbach's Alpha is 0.86 which is higher than 0.7 for all of the seven factors, which indicates high overall internal consistency among the items representing the factors. Regarding reliability we also used *communalities*, which demonstrated also that all the factors were above 0.5.

We used ANOVA test, which is the simplest test of whether or not the means of our four groups of people, divided by age, are all equal. The advantage of ANOVA over t-test is that doing two-sample t-tests would result in an increased chance of committing a type I error. We obtained the highest mean for the group 41-50, followed by the group under 30 and the last group by the mean is the group with ages between 51 and 60. We can conclude that regarding the seventh factor, emotional intelligence, it is requested a deep research on this topic due to the characteristics and influence of economic and social background during the last half of 20<sup>th</sup> century in Europe.

## **5. Conclusions**

Strategies for growth are part of the fundamental spectrum of the strategic management business development. They can be organic strategies or non-organic based

on M&A. In a turbulent business environment M&A strategies are more attractive due to their financial consolidation. However, in the long run, many such strategies proved to be failures. M&A represent discontinuities in the business activity, and this fact implies that transformational leadership should play an important role as integrator for the new company. If there are many failures in this type of strategy it is because managers focus only on financial data forgetting the human capital needs. Our research is concerned with M&A strategy on the beer market in an emergent economy. We investigate the Bere-Mures acquisition by Heineken, as a major business event on the beer market in Romania. Our research used both qualitative and quantitative instruments for investigation. For the qualitative component we used interviews with top managers, and for the quantitative part we used questionnaires addressed to managers after acquisition. Research results show that due to the transformational leadership process Bere-Mures acquisition by Heineken proved to be the right decision at the right time. A follow-up of the transactions shows a significant improvement in both companies' activities after the merger.

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